



DEAN F. ANDAL
MEMBER, STATE BOARD OF EQUALIZATION

March 12, 1997

Honorable Christopher C. Cox
Member of Congress
2402 Rayburn H.O.B.
Washington, D.C. 20515

Honorable Ron Wyden
U.S. Senator
259 Russell S.O.B.
Washington, D.C. 20510

Dear Congressman Cox and Senator Wyden:

As an elected member of California's Board of Equalization I am pleased to offer my enthusiastic and unequivocal support of your bipartisan "Internet Tax Freedom Act."

Reacting to the growth in electronic commerce as a new revenue source and fearing the erosion of the existing tax base, State and local governments are needlessly threatening our nation's future economic prosperity.

Instead of applying traditional legal concepts to the taxation of electronic commerce, state tax bureaucrats are becoming legal contortionists in an attempt to tax Internet sales. The resulting confusion among prospective Internet merchants and service providers could substantially impede the development of electronic commerce. Electronic commerce is not a big business domain. The proliferation of high-speed, low cost computers and competitive access to telecommunications networks is a siren call to small businesses and individual entrepreneurs to seek their fortunes. Government's relentless pursuit of these new tax revenues will discourage up-start businesses from venturing out on the Internet and pursuing the American dream.

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There is simply no need for the States to expend resources in pursuit of electronic commerce. Not only will the technology prove a difficult tax target but the threat to the existing sales tax base isn't real. Despite the meteoric rise in electronic commerce over the past five years, traditional State sales tax revenues continue to grow. To argue electronic commerce will diminish the sales tax base you need to assume that consumers who purchase goods over the Internet are primarily motivated by the marginal tax advantage they may enjoy by acquiring goods out of state. The prevailing wisdom that out-of-state businesses necessarily enjoy a competitive advantage over local "main street merchants" is clearly exaggerated.

Congress is focusing on reducing government largess and reversing the 60 year trend of expansion. Why then tax the Internet job machine for additional tax revenue? Zealously pursuing new revenues, State tax officials are expanding their reach to electronic commerce through novel theories of nexus which have resulting in a great deal of confusion among taxpayers. The lack of a uniform resolution to the taxation of interstate commerce is a substantial impediment to the growth of electronic commerce. Congress must act, as it should have long ago, to clearly identify the boundaries of state taxation of interstate commerce.

The federalist system as envisioned by our Founding Fathers granted Congress through the Commerce Clause the power to regulate commerce between States and with foreign nations. This authority granted Congress has certainly been misused to justify expansive federal powers. But the global implications of electronic commerce raise just the type of dilemma the Founding Fathers envisioned being resolved by Congress.

A Congressional act is necessary both for purposes of uniformity and because the States are simply incapable of resolving these issues among themselves. Failure to act will perpetuate the confusion among merchants and service providers threatening this emerging market. Inaction by

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Congress will also squander millions of taxpayers dollars in litigation destined to fail to resolve the uncertainty in existing tax law.

Please let me know how I can help advance your critical legislation. America's future depends on it.

With best regards,

A handwritten signature in black ink, appearing to read 'D. Andal', with a long horizontal flourish extending to the right.

DEAN F. ANDAL
Member, Board of Equalization

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